



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

To: Government Operations and Audit Committee (GOAC)

From: Tim Flannery, State Government Audit Manager

Date: August 15, 2012

Re: South Dakota Brand Board (SDBB) Operations

The Rules Review Committee, at their July 10, 2012 meeting, made a recommendation that the GOAC review the operations of the Brand Board. With direction provided by Senator Haverly, Chair of the GOAC, and Representative Dennert, the Department of Legislative Audit reviewed the following areas of the Brand Board:

Comparison of Current Brand Board Operations to the 2008 Feasibility Study (Meetz Report)

Background Information

Prior to 2009, the SDBB had contracted with the South Dakota Stock Growers Association to provide brand inspection services in the western part of South Dakota. In April 2008, the SDBB hired a consultant to develop a complete plan for funding, staffing and operating the livestock ownership inspection program as a function of the SDBB. Included in the Meetz Report was actual calendar year 2007 expense information from when the South Dakota Stock Growers Association administered the ownership inspection program. We compared this data to calendar year 2011 costs to operate the ownership inspection program since it has been under the State's control.

Comparison of Costs

Full-Time Inspectors (wages only)

	Stock Growers CY07 Actual	Meetz Conservative Budget	Brand Board CY11
Total Compensation	\$439,737	\$526,656	\$441,504
# of Inspectors	15	15	15
Avg Annual Salary	\$29,316	\$35,110	\$29,434

Part-Time Inspectors (wages only)

	Stock Growers CY07 Actual	Meetz Conservative Budget	Brand Board CY11(A)
Total Compensation	\$93,377	\$112,052	\$148,104
# of Inspectors	34	34	34
Avg Annual Salary	\$2,746	\$3,296	\$4,356

Local Inspectors (*wages only*)

	Stock Growers CY07 Actual	Meetz Conservative Budget	Brand Board CY11 (B)
Total Compensation	\$108,463	\$155,342	\$228,285
# of Inspectors	117	117	117
Avg Annual Salary	\$927	\$1,328	\$1,951

Other benefits and expenses

	Stock Growers CY07 Actual	Meetz Conservative Budget	Brand Board CY11
Employee Benefits	\$79,415	\$179,927	\$202,506 (C)
Travel Expenses	\$87,621	\$112,000	\$89,970
Contractual Services	\$75,522	\$43,129	\$59,249
Supplies and Materials	\$22,339	\$21,000	\$22,611

- (A)** Some of the increase between CY07 and CY11 is the change in the day rate paid to part-time inspectors working at livestock markets. In CY07 the Stock Growers paid part-time inspectors \$90 per day for work done at livestock markets. In CY11 the Brand Board paid \$90-\$115 per day for work done at livestock markets. In addition, in May 2011 the Brand Board paid \$.14 per mile to inspectors which totaled \$13,457 of additional compensation to part-time inspectors (for the prior 12 months of mileage). These changes do not appear to account for all of the increase in compensation between CY07 and CY11. Time did not permit us to explore other reasons for the increase, but we can do so if the Committee would like us to.
- (B)** Some of the increase between CY07 and CY11 is the change in the per head inspection rate paid to local inspectors. In CY07 the Stock Growers paid \$.35 per head inspected with a cap of 500 head per day. In CY11 the Brand Board paid \$.80 per head for the first 10 head inspected and an additional \$.35 per head thereafter with no cap. In addition, in May 2011 the Brand Board paid \$.14 per mile to inspectors which totaled \$11,862 of additional compensation to local inspectors (for the prior 12 months of mileage). We also noted there were approximately 110,000 more livestock local inspections completed in CY11 than were completed in CY07. These changes do not appear to account for all of the increase in compensation between CY07 and CY11. Time did not permit us to explore other reasons for the increase, but we can do so if the Committee would like us to.
- (C)** The increase in employee benefits is due to State employees receiving employer paid health insurance (the premium is approximately \$5,700/year) and a 6% employer pension contributions. Under the Stock Growers Association there was a 3% employer retirement contribution and no health insurance.

Comparison of Revenues, Expenses and Net Income

	Brand Board Inspection Program CY07 Actual**	Meetz Conservative Budget	Brand Board CY11
Total Revenue	\$1,107,915	\$1,126,595	\$1,274,877
Expenses:			
Personal Services	\$831,247	\$1,052,092	\$1,090,456
Travel Expenses	\$87,621	\$112,000	\$89,970
Contractual Services	\$75,522	\$43,129	\$59,249
Fee to Stock Growers	\$71,805		
Supplies and Materials	\$22,339	\$21,000	\$22,611
Total Expenses	\$1,088,534	\$1,228,221	\$1,262,286
Net Income (Loss)	\$19,381	(\$101,626)	\$12,591

*** The program was operated under contract with the South Dakota Stock Growers Association and the amounts shown are the expenses incurred by the contractor plus the administrative fee and the net profit was retained by the Brand Board.*

The inspection fee has been set at \$0.80 per head since prior to 2006. An increase of \$0.10 was approved on July 10, 2012 by the Rules Review Committee.

Comparison of Inspection Numbers

	Stock Growers CY07 Actual	Brand Board CY11
Total Animals Inspected	1,389,002	1,537,009

Salaries of Inspectors

In reviewing salaries of all inspectors we determined that all 15 full-time inspectors received pay raises between FY09-FY11. According to the Brand Board Director, the full-time inspectors were hired by the brand board but were formerly inspectors for the Stock Growers Association. At the time of hiring these inspectors, it was not known that each inspector was paid differently. All inspectors were then categorized based upon level of experience and raises were given so all inspectors within each category would be at the same pay rate. Those pay rates are as follows:

<u>Experience</u>	<u>Salary</u>
0-5 years	\$26,409.60 (2 employees) \$28,828.80 (1 employee)
6-29 years	\$30,878.40 (7 employees) \$31,785.60 (1 employee)
30+ years	\$33,633.60 (2 employees) \$34,540.80 (2 employees)

According to the Brand Board Director, raises are given every three months for the first year of employment; however this does not appear to be consistent amongst all full-time inspectors. Some inspectors only received one pay raise after their starting date and others received 2-3 raises since their starting date (excluding the raises effective for FY13). We recommend a formal pay scale be established and implemented.

Upon review of the part-time and local inspectors' salaries, it does not appear any raises were given with the exception of meeting the new minimum wage standards that took effect 7-24-09.

Bonuses

We noted one bonus that was paid to a former investigator on 4-23-09 for \$4,500. According to the Brand Board Director, upon hiring this investigator on 4/27/06, an agreement was made that the Brand Board would pay this investigator \$150/month for his home office. However, the Brand Board was not able to pay this according to the State Auditor's office. It was BOP's recommendation to issue this compensation as a bonus. As of 4/23/09, the bonus was issued to back-pay the \$4,500 (\$150 x 30months) and the investigator's salary was adjusted to incorporate \$150 per month as regular compensation.

Review of Inspection Numbers

In CY11, we compared two monthly inspection summary reports to the actual inspection reports received from the full-time, part-time and local inspectors. No variances were noted. We then compared the monthly inspection summary reports to the calendar-year end reports presented to the Legislature, several discrepancies were noted. Below are the discrepancies found for CY11 (Red = Numbers did not agree to the report presented to the Legislature):

<u>CY2011 Month</u>	<u>Livestock Markets</u>		<u>Lockers</u>		<u>Local Insp.</u>		<u>Total # Inspected</u>		<u>Total Variance</u>
	Report	DLA	Report	DLA	Report	DLA	Report	DLA	
January	88,397	88,510	350	483	29,382	24,922	118,129	113,915	(4,214)
February	102,644	102,644	359	442	24,922	29,382	127,925	132,468	4,543
March	81,018	79,399	336	447	27,186	27,186	108,540	107,032	(1,508)
April	61,140	61,269	329	423	24,537	24,537	86,006	86,229	223
May	58,846	59,051	299	407	38,503	41,973	97,648	101,431	3,783
June	29,216	29,266	257	146	34,550	34,550	64,023	63,962	(61)
July	38,696	38,696	362	362	12,690	12,690	51,748	51,748	-
August	25,442	23,460	185	196	27,019	27,019	52,646	50,675	(1,971)
September	38,760	38,760	325	325	36,959	36,959	76,044	76,044	-
October	79,630	79,630	184	277	88,958	88,958	168,772	168,865	93
November	211,589	211,589	299	421	128,284	128,284	340,172	340,294	122
December	203,282	203,460	283	367	41,791	41,836	245,356	245,663	307
Total	1,018,660	1,015,734	3,568	4,296	514,781	518,296	1,537,009	1,538,326	1,317

Per the Brand Board Director some part-time and local inspectors do not get their reports submitted in a timely manner. This primarily affects the locker and local inspection numbers. As these inspection numbers are made public, the Brand Board Director normally only updates the numbers if additional reports are received within the first 2-3 months. If reports are received 4 or more months late, the numbers are not normally updated. We recommend that monthly inspection reporting policies be established to ensure inspection information is comparable and complete.

Board Minutes

We noted during our review of the board minutes that personnel matters including employee compensation are discussed and approved in an executive session. The bonus as mentioned above was not approved or disclosed in the board minutes, as well as the raises that were given throughout the past 3 years. The only thing mentioned in the board minutes was the approval of the conditional compensation of \$0.14/mile for inspections.

Additional Information

As of July 1, 2012, the Brand Board approved the payment of an additional \$10 per inspection if an inspection is less than or equal to 100 head. During the review we noted that an inspector must fill out a different inspection form for each buyer and/or seller. An inspector may go to the seller's property and complete 3 inspections which total more than 100 as a lump sum, but because there were 3 buyers and each buyer bought less than 100 head, the inspector would be entitled to the additional \$10 per inspection. We recommend a written policy be established as to when the additional \$10 will be paid.